Post Event Summary Report

Social Security Reform:
Proposals and Recommendations

An Independent Aging Agenda Event of the 20005 White House Conference on Aging

Date of Event: May 6, 2005

Location of Event: Minnesota History Center, St. Paul, Minnesota

Number of Persons Attending: 120

Sponsoring Organization: Minnesota Board on Aging

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Priority Issue #1: **Private Savings and Adequacy of Retirement Income**
Originally, the proposal to add a cost of living adjustment (COLA) to Social Security was made to curb rapid increases in costs (as subsequent administrations had used Social Security increases as a way to ensure constituent support). Today, one issue is how to determine the best method for calculating a COLA—whether tied to wage indexing or price indexing. To further complicate this issue, the rate of private savings in the United States is low, and recently been decreasing even further. Many people, especially the Boomer generation, are not saving money for their own retirement. Among persons aged 45-54 (target Boomers), only 26% have an IRA and the average investment is $13,000.

Barriers:

- There are already incentives for people to save money, such as tax-deferred IRA, 401-K and Keogh accounts. What is missing is some kind of incentive (not requirement) for people to participate in a savings plan.
- Currently 38% of Social Security goes to persons who are disabled (not retired). These persons generally make lower wages, even when they can find work. They cannot set aside enough to support themselves privately when they retire.
- Older widows represent the greatest proportion of older Americans. When an older woman's husband dies, her household income is generally reduced by more than half.
- Low income persons, even though they are employed, are not able to accumulate savings.

- Social Security is already inadequate for many—especially with the huge recent increase in out-of pocket health care costs, rising utilities and housing costs.

Proposed Solution:
The federal government should create a new way for people to save money (e.g., Personal Savings Accounts) to allow more Americans to accumulate personal assets to support themselves when they are no longer working:
- Examples include: increased interest rates on T-bills; Increase the amount of money that a person can invest in an Individual Retirement Accounts (IRA); allow all Americans to invest in "Thrift Savings" – a program now limited to government employees
- This should be an ADD ON (not a "carve out") to the current Social Security program, or a separate, new national savings program

Priority Issue #2: **Social Contract and Guaranteed Safeguard for All**
Social Security was created as an inter-generational compact: each succeeding generation pledges to support the previous generation. Social Security has also been the United States' most successful program for mitigating the wage discrepancy between the richest and the poorest—the highest discrepancy among all first-world countries. As Social Security is social *insurance*, it provides both a minimum guaranteed income for retirees, but also the peace of mind that this is backed by the U.S. Government. Recent fluctuations in the stock market and below-inflation interest rates on saving accounts have made many people skeptical of non-guaranteed investments. Many older people—especially those just now approaching retirement—are concerned that some kind of guaranteed rate-of-return be maintained.

Barriers:
- Proposals to "change the rules" and make the costs and/or rewards greater for one generation than another are not consistent with an inter-generational contract.
- Any changes to the universality of the program may make it more of a welfare program and, therefore, less likely to maintain popular support—a type of divide-and-conquer approach.
- An increasing proportion of Americans are projected to live into their 80s and 90s. Even with very low rates of inflation (e.g., just 2% per year), twenty-five years after retirement, the cost of living will be 50% higher, making today's savings worth half as much. Many persons in their 80s today thought that they had planned adequately when they retired, but have outlived their assets.

Proposed Solution: Preserve the basic contract with American workers and across generations.
- Before making any changes, the government should complete a "beneficiary impact study" to determine both the short- and long-range impacts on all populations presently supported through Social Security's several programs.

- The Personal Savings Account, as important as it is, should be an "add on" to the basic Social Security system, not a "carve out" – which would jeopardize the universal insurance aspect of the current program.

Priority Issue #3: **Changes to Ensure Social Security Solvency**
Social Security has been altered many times since it was first created in 1935, to reflect both demographic and political changes in the United States since that time. For example, when Social Security was enacted in 1935, there were 15 workers for every retiree. By 1960, the ratio had become 6 workers per retiree. Today there are approximately 3.5 workers per retiree, and by 2030 the ratio will be two to one.

Barriers:
- Public confusion about whether social security is, in fact "personal savings" or "income insurance."
- Attempts to "fix" the system "once and for all" can not anticipate future economic or demographic conditions.
- A higher percentage of persons are living well beyond the age of full retirement today, increasing the proportion of time that persons are not working rather than working.
- The current war effort is inflating the national debt—putting further stress on public resources.

Proposed Solution:
Make essential changes to Social Security to ensure future solvency.
- Examples include: lift the ceiling on Social Security earnings, from the current $90,000 to cover all income levels
- Increase the tax rate from 12.5% to 13% (or higher if necessary.
- Require universal enrollment in Social Security (not allowing government or other employees to opt out).
- Change the formula for calculating annual increases in benefits to reflect cost of living increases (rather than the present wage index).
- Further delay the age at which persons may earn full retirement benefits.
- Reinstate capital gains tax rates and earmark these funds for Social Security.

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